

**DEFENSE COMMISSARY AGENCY (DeCA)
DEFENSE WORKING CAPITAL FUND**

**FY 1999 AMENDED BUDGET ESTIMATES
OPERATING AND CAPITAL BUDGETS**

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**DEFENSE COMMISSARY AGENCY (DeCA)
DEFENSE WORKING CAPITAL FUND**

FY 1999 AMENDED BUDGET ESTIMATES

OPERATING AND CAPITAL BUDGETS

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DEFENSE COMMISSARY AGENCY - CORPORATE OVERVIEW
DeCA DEFENSE WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS AND COMMISSARY OPERATIONS

The Defense Commissary Agency (DeCA) provides a valuable non-pay compensation by operating military commissaries worldwide. Commissaries sell food and household related items to active and reserve members of the Military Departments, their families, retirees, and other authorized patrons. Commissaries sell product at acquisition cost, resulting in patrons receiving a direct savings of at least 25 percent off the typical market basket. This savings is an integral non-pay component of the total military lifetime compensation package and is instrumental in recruiting and retaining military members, for fostering a sense of community, and for maintaining a positive sense of quality of life, especially in overseas communities and remote locations. Military members have embraced this valuable contribution to their lifetime total compensation package and rank the commissary as their number one non-pay compensation in importance.

DeCA consists of a headquarters and field operating activities, located at Fort Lee, Virginia. There are 4 region offices, 37 zones, 298 commissaries, and 11 Navy Exchange Marts (NEXMARTs) on military installations worldwide. DeCA employs over 18,000 personnel, has annual sales of \$5 billion with annual operating budget of approximately \$1 billion.

Appropriated funding for Commissary Operations will be devolved to the Military Services, effective October 1, 1998. Devolvement means that appropriated funding for DeCA operations will be provided by the Military Services as a reimbursable revenue to DeCA. In FY 1999, this appropriated revenue from Military Services will be \$983.9 million: \$338.4 million from the Army; \$302.1 million from the Air Force; \$256.8 million from the Navy; and \$86.6 million from the Marine Corps. Allocation of this appropriated funding support from the Services is based on the percentage of total activity duty personnel and military retirees by Service. Devolvement will provide a better method for the Military Services to be more involved in decisions affecting commissary operations that impact the level of resources required to sustain the benefit. This should benefit the patrons by providing a more direct link between the commissary customer requirements and the level of appropriated funds required to achieve results.

I. OPERATING AND CAPITAL BUDGETS

DeCA financially manages two activities within its Defense Working Capital Fund: Commissary Resale Stocks and Commissary Operations. Beginning in FY 1999, DeCA will be responsible for its own revolving fund cash management within the Defense Working Capital Funds. The appropriation request for FY 1999 of \$63.7 million will provide a single revolving fund cash account for DeCA's Resale Stocks and Commissary Operations activity groups in order to maintain the minimum cash balance necessary to meet normal fluctuations in disbursements.

a. Commissary Resale Stocks finances the purchase of inventory for resale to authorized patrons. Authorized patrons are unlike the typical DoD customer, which is normally a government entity financed by an appropriation. The DeCA customer is the cash paying commissary patron. Products offered by commissaries include groceries, meat, poultry, fruits, vegetables, dairy products, and household products. Commissary items are sold at cost plus a 5 percent surcharge. There is no requirement for appropriated fund support. Projected sales for FY 1999 are \$5.0 billion.

b. Commissary Operations finances operating costs for resale stores, agency and region headquarters, and support services. Specific costs include civilian and military labor, labor contracts, travel, transportation of commissary goods overseas, indirect and other base support. Beginning in FY 1999, the primary revenue source for this activity group is appropriated fund reimbursement from the Military Departments. Commissary Operations also receives additional revenues (about \$40 million) from processing manufacturers' coupons, handling fees for tobacco products and reimbursements for other support. Commissary Operations unit cost goal is based on sales as the output.

II. WORKLOAD ASSUMPTIONS

The Sales forecast for resale items for FY 1999 is \$5.0 billion. Sales are the primary factor in determining DeCA's workload; however, there are many other factors that influence workload; e.g., authorized patrons, number and location of commissaries, operating hours and days, distribution systems, information management systems, facility condition, and regulatory and statutory requirements.

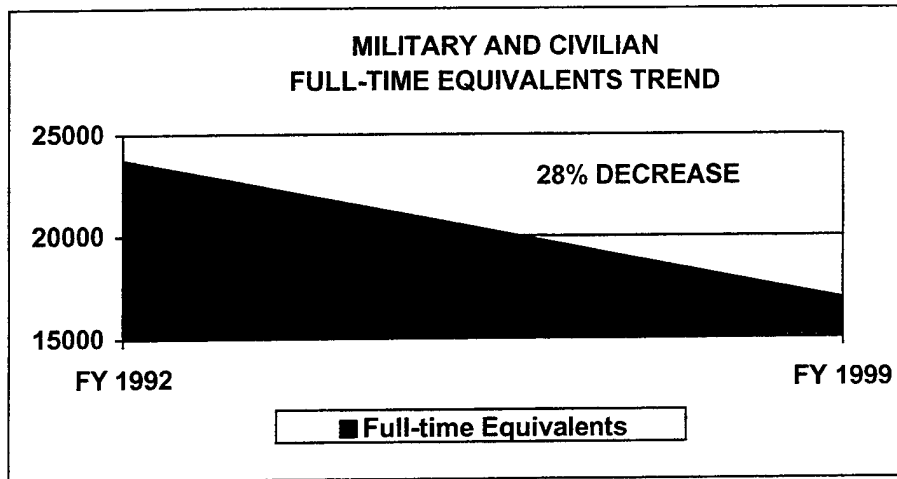
a. DeCA's total authorized patron baseline is approximately nine million personnel. DeCA's customers include active duty military members, reserve component members, retired personnel, and their families; government departments or agencies and DoD civilians in overseas areas; and official organizations and activities of the military departments.

b. DeCA plans to begin FY 1999 with 295 commissaries. There are also 11 NEXMARTs, which combine commissary and exchange operations at small locations overseas. The Navy Exchange Command (NEXCOM) manages these stores, but DeCA provides the resale inventory and reimburses NEXCOM for total costs of commissary operations.

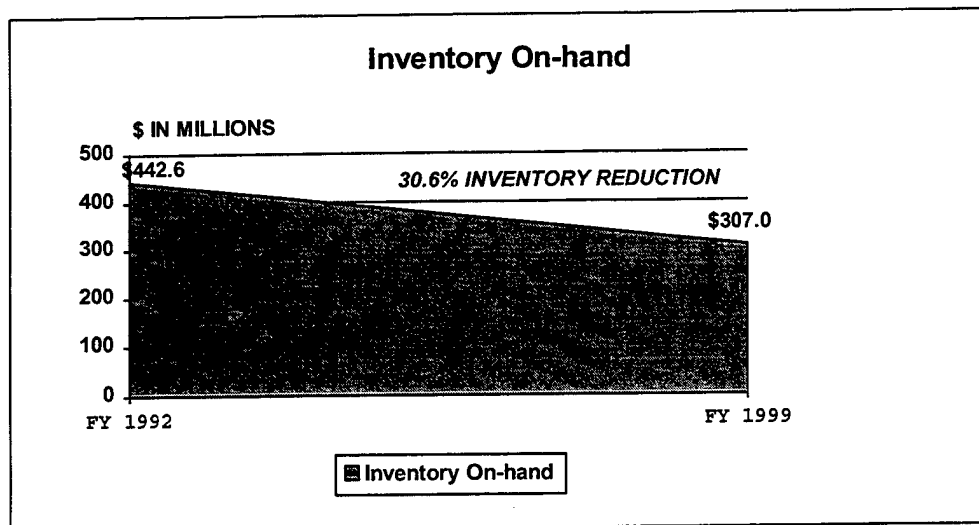
c. Commissary operating hours and days are determined by sales, patron demographics, and local installation needs. Commissaries are open an average of 48 hours a week. Personnel strength is determined through application of workload based engineered staffing standards.

d. DeCA operates 12 central distribution centers (CDC) to support inventory requirements: 2 each in Germany, United Kingdom, Korea and Alaska; and 1 each in Japan, Okinawa, Panama, and Guam.

DeCA employs a total of 16,977 personnel (full-time equivalents (FTEs)) beginning in FY 1999 (16,965 civilians and 12 military). FTEs have decreased by approximately 28 percent since FY 1992 when there were 23,398 FTEs.



The DeCA Overseas Ordering and Receiving System (DOORS), Frequent Delivery System (FDS) and other initiatives have enabled DeCA to reduce the investment in inventory on hand and intransit from \$549.5 million at the end of FY 1991 to \$322 million at the end of FY 1999. Inventory on order and intransit represents administrative and production lead time and is often referred to as order ship time (OST) or pipeline. The projected OST for FY 1998 and FY 1999 for all DeCA commissaries is less than 2 days of supply compared to 15 days of supply experienced in FY 1992. This is over a 90 percent reduction. DeCA will also reduce the on-hand inventory level by over 30 percent from the level maintained by the Military Departments at the end of FY 1991 as noted in the following chart:



An integral component of DeCA operations is information systems. During this budget, DeCA will continue to modernize its point of sales (POS-M) equipment and its business system, Defense Commissary Information System (DCIS).

a. POS-M is required to replace several legacy systems transferred from the Military Departments. The POS-M system includes price scanning and upgraded checkout counters to improve through-put at checkout. With the deployment of POS-M, DeCA is also pursuing: electronic shelf labels to assist with price changes; electronic surveillance; and Electronic Benefits Transfer for food stamps.

b. DCIS will interface with POS-M and will provide management information system (MIS) data on inventory management, merchandise buying, labor forecasting and scheduling, labor time and attendance, direct store delivery of merchandise, computer assisted ordering, business mail, funds management, and a decision support system.

III. PRODUCTIVITY ASSUMPTIONS

DeCA continues to stay on the leading edge of reinventing government by identifying and implementing more cost-effective business practices. Based on past and planned performance, DeCA was designated a pilot agency for the Government Performance and Results Act (GPRA), received three "Hammer Awards" and is one of nine Performance Based Organizations in the federal government. DeCA was also nominated for the Presidential Quality Award during FY 1998.

a. Since consolidating the four separate commissary systems, DeCA reduced its operating costs from more than \$1.2 billion in FY 1993 to less than \$975 million in FY 1997. Additional savings of over \$40 million for FY 1998 and FY 1999, due to streamlining and consolidation plans, will partially offset the effects of inflation and other price growth, including civilian pay raises.

b. DeCA streamlined functions above store level by reducing the number of region headquarters from seven to four in FY 1998. In addition, a reorganization reduced operating costs for the DeCA Headquarters and the field operating activities staffs. This effort will reduce overhead costs by \$5.7 million in FY 1998 and an additional \$1.2 million in FY 1999.

c. Staffing in commissaries was reduced by consolidating management support centers (accounting functions located in commissaries) into six centralized Accounts Control Sections (ACS). This consolidation, coupled with other store operating efficiencies and reapplication of staffing standards, will reduce operating costs by \$11.3 million and 298 workyears in FY 1998.

d. DeCA continues to reduce operating costs by outsourcing selective functions and services under OMB Circular A-76 procedures. DeCA began FY 1998 with 195 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. Seven new A-76 studies are planned during FY 1998. DeCA also uses services from Defense Logistics Agency, Defense Finance and Accounting Service and the Military Departments for support in areas associated with personnel servicing, procurement of fresh fruits and vegetables, accounting, systems development, construction and base support.

Joint ventures with the exchange systems are also producing economies and increasing convenience for patrons. For example, patrons were extremely pleased with the Port Hueneme, CA combined commissary and exchange complex that opened in FY 1997. DeCA and the Army and Air Force Exchange System (AAFES) are constructing side-by-side facilities under one roof at Aviano, Italy; Elmendorf, AK; Fort Buchanan, Puerto Rico; and Fort Bragg, NC. DeCA and the Navy Exchange System also have commissary and exchange joint construction projects scheduled for Naples, Italy and North Island, CA in FY 1998.

OCONUS and remote locations cost more per dollar of sales than CONUS locations, but are vital for military members and their families because adequate alternative shopping is not available. OCONUS and remote locations use about 45 percent of DeCA support financed with appropriated funds to produce 23 percent of sales, demonstrating higher costs than those in CONUS. These commissaries are more expensive because operating and support costs in foreign and remote locations are higher, and because many locations service small-to-medium military populations with smaller sales and higher fixed costs. Additionally, there are significant support costs incurred in providing U.S. food products and household items overseas, e.g., transportation which is about \$166.6 million in FY 1999. Regardless of these cost considerations, overall cost efficiency and effectiveness is improved because DeCA's infrastructure provides economies that are not achievable as separate activities within the Military Departments. The commissary system is critical in supporting military populations overseas and is essential to their quality of life. Furthermore, commissaries are instrumental in minimizing cost of living allowances (COLA) overseas by providing low-cost groceries.

DeCA continuously strives to improve customer service, while developing more cost effective business practices. For example, DeCA is implementing:

- a. In-store banking services, and debit and credit card transaction processing.
- b. Home Meal Replacement program, consisting of precooked and prepackaged side dishes and entrees, a growing trend in the commercial sector. Plans are to implement this program at 30 commissaries during FY 1998 and 60 additional commissaries in FY 1999, with no increase in appropriated funding support.

c. Centralized category management plans to provide better stock assortment and minimize not-in-stock conditions. By FY 1999, 118 category plans will be completed. DeCA is centrally managing store resets which result in better execution of category management plans for Industry and DeCA.

d. Personnel improvements using the automated Telephone Application Processing System (TAPS) to receive, evaluate and rank applicants for cashier, store worker, and meatcutter positions. This initiative reduced the lag-time for hiring of these position from 75 days to 8 days to notify and 20 days for employee to enter on duty, without additional costs.

DeCA was nominated to be a Performance Based Organization (PBO). PBOs are part of the National Performance Review, sponsored by the White House and managed by the Vice President. DeCA will represent change in the way the federal government works. That includes adopting some characteristics of private-sector companies and obtaining special regulatory and administrative waivers so the agency can operate more efficiently.

Productivity in DeCA is best illustrated by comparing workload data between commercial supermarkets and the commissary system, which clearly demonstrates that commissaries are cost effective and highly used by their patrons.

(Source for Supermarket Data: Progressive Grocer, April 1997)

WORKLOAD MEASURE	COMMISSARY	SUPERMARKET
Average Weekly Sales per Store	\$327,000	\$207,603
Weekly Sales Per Square Foot	\$ 17.21	\$ 7.65
Average Weekly Sales per Employee (Store level)	\$ 6,412	\$ 3,300
Average Weekly Sales per Checkout (CONUS only for comparison)	\$ 32,712	\$ 23,902

	FY 1997	FY 1998	FY 1999
<i>Savings/Efficiencies/Closures</i>			
Commissary Operations (\$M)	12.1	30.0	10.5
<i>Workload Indicators</i>			
Commissary (begin year)	309	298	295
Annual Sales (\$M)	5,126.7	5,000.0	5,000.0
Resale Inventory (\$M)	316.2	307.0	307.0
<i>Performance Indicators</i> (Goals for FY97-FY99)			
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%
Customer Savings	25%	25%	25%
<i>End Strength and Workyears</i>			
Civilian End Strength	18,983	18,728	18,689
Military End Strength	16	12	12
Civilian Workyears	16,802	16,965	16,910
Military Workyears	16	12	12

DEFENSE COMMISSARY AGENCY
DeCA DEFENSE WORKING CAPITAL FUND
COMMISSARY RESALE STOCKS

FUNCTIONAL DESCRIPTION

Resale Stocks finances inventory sold by the commissary system. Products stocked include groceries, meat, poultry, fruits, vegetables, dairy products, and household goods. Revenue from sales at cost is used to purchase inventory for resale. Therefore, it is self-sufficient requiring no appropriated fund support.

A five percent surcharge is applied to sales at the check out counter. This surcharge is required by law and finances certain commissary operation and construction costs. Revenue from this surcharge is accounted for in the Surcharge Collections, Sales of Commissary Stores, Defense account.

DeCA provides a valuable non-pay compensation to its primary authorized commissary patrons: military members and their families, reserve forces personnel, retired personnel and annuitants. Other authorized sales are made to government civilian overseas, troop issue subsistence, nonappropriated fund activities, U.S. State Department activities, and others. Recent customer surveys indicate that the commissary benefit has replaced medical care as the most valued quality of life benefit.

BUDGET HIGHLIGHTS

Revenue consists entirely of cash, charge, and coupon sales. Cash and coupon sales to active duty and reserve military members and their families, retirees, foreign entities and nonappropriated funds represent over 99 percent of total revenue. Charge sales includes Army troop issue subsistence, National Guard and other appropriated fund sales.

The unit cost goal for this activity group is \$1.00 per dollar of sales because resale products are sold at acquisition cost. Therefore, the Net Operating Result (NOR) for the budget years is planned to be zero.

CHANGES IN OPERATIONS

Sales forecasts have been changed to reflect the policy of selling consigned tobacco products at Exchange prices effective 1 November 1996. Tobacco sales for FY 1998 and 1999 are projected to be over \$100 million lower than FY 1996. In addition, customer count indicates that non-tobacco sales have decreased due to the tobacco price increase.

The DeCA Overseas Ordering and Receiving System (DOORS), Frequent Delivery System (FDS), and other initiatives have enabled DeCA to reduce the investment in inventory on hand and intransit to \$322.0 million for FY 1998 and FY 1999. Comparing this inventory level with the \$549.5 million maintained by the Military Departments at the end of FY 1991 provides an overall inventory reduction of \$227.5 million, 41.4 percent. The significance of this achievement is further illustrated by comparing the following components of the acquisition process in terms of days of supply.

a. Inventory on hand includes operating and safety levels. These levels are normally expressed in days of supply based on average daily sales. Average daily sales are projected to be \$13.9 million for FY 1998 and FY 1999 with 23 days of supply. In comparison, average daily sales for FY 1991 were \$16.7 million with 36 days of supply, a 36 percent reduction in terms of days of supply.

b. Inventory on order and intransit represents administrative and production lead time and is often referred to as order/ship time (OST) or pipeline. The projected OST for FY 1998 and FY 1999 is less than 2 days of supply compared to the 15 days of supply experienced in FY 1991, a reduction of over 90 percent.

Innovations in the acquisition process, such as replacing cumbersome supply bulletins and blanket delivery orders/purchase agreements with resale ordering agreements, resulted in a reduction of contracts used for buying resale items. Less than 1,000 contracts exist now, where there used to be more than 3,300.

Centralizing key aspects of commissary management under the Field Operating Activities was accomplished to reduce costs both to the agency and the food industry. The following business units have been instrumental in the success of the agency's re-engineering efforts and in achieving overall cost reductions.

a. The Contract Management Business Unit centrally orders supplies and equipment and non-brand name subsistence and prepares service contracts. It develops standards for items and services through market research, establishes contracts to support commissaries, regions, and headquarters, and manages property accountability.

b. The Marketing Business Unit performs category management, whereby all merchandising reviews for new items are centrally accomplished and conducts category reviews for national brand name items. Instead of just buying the lowest priced items, buyers seek the largest savings for the highest volume sellers in a category. It also develops monthly, holiday, and seasonal promotional sales to include quarterly truckload sales.

These efforts to centralize ordering and streamline acquisitions have paid off with a significant increase in patron savings. The FY 1996 Market Basket Comparison Study, done primarily to determine differences between commissary and private-sector

supermarket prices, found that average savings for shoppers in the contiguous United States is 29.7 percent, 6.3 percent greater savings than the last study done in FY 1992.

Workload Indicators

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Number Commissaries (begin year)	309	298	295
Annual Revenue (\$M)	5,126.7	5,000.0	5,000.0
Ending Inventory On-Hand (\$M)	316.2	307.0	307.0

Performance Measures

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%

Financial Indicators

	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Cost of Goods Sold (\$M)	5,177.4	5,000.0	5,000.0
Net Operating Results (\$M)	(50.4)	0	0
Accum Operating Results (\$M)	(178.7)	(178.7)	(178.7)
Unit Cost (Per \$ of Sales)	1.0099	1.0000	1.0000

DEFENSE BUSINESS OPERATIONS FUND
DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
REVENUE AND EXPENSES
(Dollars in Millions)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
Revenue			
Gross Sales	5,126.7	5,000.0	5,000.0
Operations	5,126.7	5,000.0	5,000.0
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Major Construction	0.0	0.0	0.0
Major Construction Depreciation	0.0	0.0	0.0
Other Income	0.3	0.0	0.0
Refunds/Discounts (-)	0.0	0.0	0.0
Total Income:	5,127.0	5,000.0	5,000.0
Expenses			
Cost of Material Sold from Inventory	5,171.1	5,000.0	5,000.0
Salaries and Wages:			
Military Personnel Compensation & Benefits	0.0	0.0	0.0
Civilian Personnel Compensation & Benefits	0.0	0.0	0.0
Travel & Transportation of Personnel	0.0	0.0	0.0
Materials & Supplies (For internal Operations)	0.0	0.0	0.0
Equipment	0.0	0.0	0.0
Other Purchases from Revolving Funds	0.0	0.0	0.0
Transportation of Things	0.0	0.0	0.0
Depreciation - Capital	0.0	0.0	0.0
Printing and Reproduction	0.0	0.0	0.0
Advisory and Assistance Services	0.0	0.0	0.0
Rent, Communication, Utilities, & Misc. Charges	0.0	0.0	0.0
Other Purchased Services	0.0	0.0	0.0
Bad Debts	6.3	0.0	0.0
Other Expenses	0.0	0.0	0.0
Total Expenses	5,177.4	5,000.0	5,000.0
Operating Result	(50.4)	0.0	0.0
Less Capital Surcharge Reservation	0.0	0.0	0.0
Plus Appropriations Affecting NOR/AOR	0.0	0.0	0.0
Other Changes Affecting NOR	0.0	0.0	0.0
Net Operating Result	(50.4)	0.0	0.0
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	(178.7)	(178.7)	(178.7)

Exhibit Fund-14 Revenue and Expenses
February 1998

**BUSINESS AREA ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY RESALE STOCKS
SOURCE OF REVENUE
(Dollars in Millions)**

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
1. New Orders			
a. Orders from DoD Components:			
Army	8.7	8.7	8.7
Navy	8.2	8.2	8.2
Air Force	18.0	18.0	18.0
Marine Corps	0.0	0.0	0.0
Other	0.4	0.4	0.4
b. Orders from other Fund Activity Group			
DWWCF	0.0	0.0	0.0
c. Total DoD	35.3	35.3	35.3
d. Other Orders:			
Other Federal Agencies	3.4	3.4	3.4
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	5,088.0	4,961.3	4,961.3
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	5,126.7	5,000.0	5,000.0
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	5,126.7	5,000.0	5,000.0
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	5,126.7	5,000.0	5,000.0

**Defense Commissary Agency/Resale Stocks
Changes in the Costs of Operation
February 1998
(Dollars in Millions)**

	<u>Expenses</u>
1. FY 1997 Actual Costs	5,177.4
2. FY 1998 PB Estimate	5,000.0
3. Program Changes	
4. Pricing Changes	
5. Savings/Efficiencies	
6. Adjusted FY 1998 Estimate	5,000.0
7. Pricing Adjustments	
8. Savings/Other Efficiencies	
9. Program Changes	
10. FY 1999 Current Estimate	5,000.0

**Exhibit Fund-2 Changes in the Costs of Operation
February 1998**

FY 1997 BUDGET

DIVISION

February 1998

DEFENSE COMMISSARY AGENCY (DeCA) SUPPLY MANAGEMENT

INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	347.0		347.0	
2. BOP INVENTORY ADJUSTMENTS				
a. RECLASSIFICATION CHANGE (Memo)				
b. PRICE CHANGE AMOUNT (Memo)				
c. INVENTORY RECLASSIFIED AND REPRICED				
3. RECEIPTS AT STANDARD	5,107.7		5,107.7	
4. SALES AT STANDARD	5,126.7		5,126.7	
5. INVENTORY ADJUSTMENTS				
a. CAPITALIZATIONS + or (-)				
b. RETURNS FROM CUSTOMERS FOR CREDIT +				
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT				
d. RETURNS TO SUPPLIERS (-)				
e. TRANSFERS TO PROPERTY DISPOSAL (-)				
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)				
g. OTHER (LIST/EXPLAIN)				
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	328.0		328.0	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)				
a. ECONOMIC RETENTION (Memo)				
b. CONTINGENCY RETENTION (Memo)				
c. POTENTIAL DOD REUTILIZATION (Memo)				
8. INVENTORY ON ORDER EOP (Memo)	5.2		5.2	
9. NARRATIVE (Explanation of unusual changes)				

Exhibit Fund-16 Material Inventory Data (Page 1 of 3)
February 1998

FY 1998 BUDGET

DIVISION

February 1998

DEFENSE COMMISSARY AGENCY (DeCA) SUPPLY MANAGEMENT

INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	328.0		328.0	
2. BOP INVENTORY ADJUSTMENTS				
a. RECLASSIFICATION CHANGE (Memo)				
b. PRICE CHANGE AMOUNT (Memo)				
c. INVENTORY RECLASSIFIED AND REPRICED				
3. RECEIPTS AT STANDARD	4,994.0		4,994.0	
4. SALES AT STANDARD	5,000.0		5,000.0	
5. INVENTORY ADJUSTMENTS				
a. CAPITALIZATIONS + or (-)				
b. RETURNS FROM CUSTOMERS FOR CREDIT +				
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT				
d. RETURNS TO SUPPLIERS (-)				
e. TRANSFERS TO PROPERTY DISPOSAL (-)				
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)				
g. OTHER (LIST/EXPLAIN)				
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	322.0		322.0	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)				
a. ECONOMIC RETENTION (Memo)				
b. CONTINGENCY RETENTION (Memo)				
c. POTENTIAL DOD REUTILIZATION (Memo)				
8. INVENTORY ON ORDER EOP (Memo)	8.3		8.3	
9. NARRATIVE (Explanation of unusual changes)				

FY 1999 BUDGET

DIVISION

February 1998

DEFENSE COMMISSARY AGENCY (DeCA) SUPPLY MANAGEMENT

INVENTORY STATUS	TOTAL	MOBILIZATION	PEACETIME OPERATING	PEACETIME OTHER
1. INVENTORY BOP	322.0		322.0	
2. BOP INVENTORY ADJUSTMENTS				
a. RECLASSIFICATION CHANGE (Memo)				
b. PRICE CHANGE AMOUNT (Memo)				
c. INVENTORY RECLASSIFIED AND REPRICED				
3. RECEIPTS AT STANDARD	5,000.0		5,000.0	
4. SALES AT STANDARD	5,000.0		5,000.0	
5. INVENTORY ADJUSTMENTS				
a. CAPITALIZATIONS + or (-)				
b. RETURNS FROM CUSTOMERS FOR CREDIT +				
c. RETURNS FROM CUSTOMERS WITHOUT CREDIT				
d. RETURNS TO SUPPLIERS (-)				
e. TRANSFERS TO PROPERTY DISPOSAL (-)				
f. ISSUES/RECEIPTS WITHOUT REIMBURSEMENT + or (-)				
g. OTHER (LIST/EXPLAIN)				
h. TOTAL ADJUSTMENTS				
6. INVENTORY EOP	322.0		322.0	
7. INVENTORY EOP, REVALUED (LAC, DISCOUNTED)				
a. ECONOMIC RETENTION (Memo)				
b. CONTINGENCY RETENTION (Memo)				
c. POTENTIAL DOD REUTILIZATION (Memo)				
8. INVENTORY ON ORDER EOP (Memo)	8.3		8.3	
9. NARRATIVE (Explanation of unusual changes)				

Exhibit Fund-16 Material Inventory Data (Page 3 of 3)
February 1998

SUPPLY MANAGEMENT SUMMARY

Defense Commissary Agency
(DoD Component)

(Dollars in Millions)

[illegible]

Aligning Investment Supply Management Summary

February 1998

FY 98 BUDGET

Defense Commissary Agency

SUPPLY MANAGEMENT SUMMARY

(Dollars in Millions)

[illegible]

Exhibit SM 1 Supply Management Summary

EXHIBIT SM 1
February 1998

SUPPLY MANAGEMENT SUMMARY

Defense Commissary Agency

(DoD Component)

(Dollars in Millions)

[illegible]

Exhibit SM 1 Supply Management Summary

February 1998

DEFENSE COMMISSARY AGENCY
DeCA DEFENSE WORKING CAPITAL FUND
COMMISSARY OPERATIONS

FUNCTIONAL DESCRIPTION

The Commissary Operations activity group finances operation of 298 resale stores, 11 NEXMARTs, 37 zones, 4 region offices, field operating activities, headquarters, and related support services. Specific costs include civilian labor, contracts, travel, transportation of commissary goods overseas, indirect and other base support, and military personnel. As part of the lifetime military compensation package, these costs are financed by reimbursements from the Military Departments and are not charged to the military member and their families.

Commissaries sell products at acquisition cost to authorized patrons, while maintaining high standards for quality, facilities, products, and services. The reimbursements received from the Military Departments' appropriations is an integral part of this process and is the foundation that allows military members and their families to receive a direct savings of at least 25 percent below the typical market basket. The commissary has become an integral segment of the entitlement and lifetime military compensation package used in recruiting and retaining military members.

BUDGET HIGHLIGHTS

Appropriated funding for Commissary Operations will be devolved to the Military Services, effective October 1, 1998. Devolvement means that appropriated funding for DeCA operations will be provided by the Military Services as a reimbursable revenue to DeCA. In FY 1999, this appropriated revenue from Military Services will be \$983.9 million: \$338.4 million from the Army; \$302.1 million from the Air Force; \$256.8 million from the Navy; and \$86.6 million from the Marine Corps. Page 25 (Sources of Revenue) references the pages in the Military Services' appropriated fund budget justification material that indicate the level of support requested to finance DeCA's Revolving Fund costs of operation. Allocation of this appropriated funding support from the Services is based on the percentage of total activity duty personnel and military retirees by Service. Devolvement will provide a better method for the Military Services to be more involved in decisions affecting commissary operations that impact the level of resources required to sustain the benefit. This should benefit the patrons by providing a more direct link between the commissary customer requirements and the level of appropriated funds required to achieve results.

DeCA is fully committed to continuously working toward improving operations at all levels, while reducing appropriated fund support. This commitment has resulted in reducing operating costs from more than \$1.2 billion in FY 1993 to less than \$975 million in FY 1997. Additional savings of over \$40 million for FY 1998 and FY 1999, due to organizational

efficiencies, will partially offset the effects of inflation and other price growth, including civilian pay raises.

The Military Departments will reimburse DeCA \$983.9 million to support commissary operations for FY 1999. Estimated total expenses for FY 1999 operations is \$1010.4 million, with an adjustment for prior year loss of \$7.9 million, plus a cash surcharge from an appropriation request of \$63.7 million, results in a total revenue requirement of \$1082 million. Military Department reimbursements to DeCA represents 97 percent of required revenue. Remaining revenue of \$34.4 million is obtained through other reimbursable sources such as: fees paid by grocery manufacturers for redemption of manufacturers' coupons; cost recovery fees for selling tobacco in commissaries; and funds from the Government of Korea as part of their agreement to share costs.

DeCA projects to have a total of 18,740 personnel beginning in FY 1999, 18,728 civilians and 12 military. However, only 16,910 workyears are required in FY 1999 because DeCA uses so many part-time employees in its store level operations. Workyears have decreased by 28 percent since FY 1992 when there were 23,398 workyears.

CHANGES IN OPERATIONS

Irrespective of its proven track record in reducing operating costs of the commissary system, DeCA continues to develop new and innovative methods to find additional savings. The following initiatives reflected in the budget are:

a. DeCA is streamlining operations by reorganizing functions above store level in FY 1998, thereby reducing overhead costs by \$5.7 million in FY 1998 and an additional \$1.2 million in FY 1999. This will enable DeCA to reduce indirect Full-time Equivalents (FTEs) by 14.9 percent in FY 1998 and an additional 4.4 percent in FY 1999 due to the following actions:

--The number of region headquarters were reduced from seven to four. Efforts began in FY 1997 to consolidate the Southern, Northeast and Central Regions into the Eastern Region and combine the Southwest and Northwest Pacific Regions into the Western/Pacific Region.

--The headquarters and field operating activities (FOAs) functions were reorganized to improve responsiveness to store level operations. Functions in the FOAs include centralized buying, accounts reconciliation, and management of second destination transportation.

b. The DLA resale distribution support provided to DeCA European commissaries will transfer to DeCA in FY 1998. This resulted from a study group that identified inefficiencies

and unnecessary cost burdens, to both DeCA and DoD. The costs will be reduced by \$3.9 million in FY 1998 by DeCA assuming the resale distribution function in Europe. This budget submission includes transfer of 330 FTEs from DLA in support of the distribution function.

c. Staffing in commissaries was reduced by consolidating management support centers, accounting functions located in commissaries, into six centralized Accounts Control Sections (ACS). This consolidation, coupled with other store operating efficiencies and reapplication of workload driven staffing standards will reduce operating costs by \$11.3 million and workyears by 298 in FY 1998.

d. DeCA seeks opportunities to reduce operating costs by outsourcing certain functions and services. There are currently about 195 A-76 contracts in effect for shelf stocking, custodial and warehousing functions. Seven new A-76 studies are planned during FY 1998. DeCA also uses services from Defense Logistics Agency, Office of Personnel Management, Defense Finance and Accounting Services and the Military Departments for support in areas associated with personnel, procurement of fresh fruits and vegetables, accounting, systems development, construction and base support.

<u>Workload Indicators</u>			
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Commissaries (begin year.)	309	298	295
Annual Sales (\$M)	5,126.7	5,000.0	5,000.0
Resale Inventory (\$M) On-hand	316.2	307.0	307.0
<u>Performance Indicators</u> (Goals for FY97-FY99)			
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Inventory Turns	16	16	16
In-Stock Rate	97%	97%	97%
Customer Savings	25%	25%	25%
<u>Financial Indicators</u>			
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Cost of Goods Sold (\$M)	971.0	992.6	1,010.4
Net Operating Results (\$M)	10.1	(10.8)	7.9
Accum Operating Results (\$M)	2.9	(7.9)	0
Unit Costs (Per \$ of Sales)	.1894	.1985	.2021
Savings/Efficiencies/Commissary Closures (\$M)	12.1	30.0	10.5
<u>End Strength and Workyears</u>			
	<u>FY97</u>	<u>FY98</u>	<u>FY99</u>
Civilian End Strength	18,983	18,728	18,689
Military End Strength	16	12	12
Civilian Workyears	16,802	16,965	16,910
Military Workyears	16	12	12

DeCA DEFENSE WORKING CAPITAL FUND
ACTIVITY GROUP: COMMISSARY OPERATIONS
REVENUE AND EXPENSES
(Dollars in Millions)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999</u>
Revenue:			
Service-Reimbursable Income			983.9
Other Income	45.2	37.4	34.4
Cash Surcharge			63.7
Total Income:	45.2	37.4	1,082.0
Expenses:			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.2	0.7	0.8
Civilian Personnel Compensation & Benefits	578.6	593.3	606.3
Travel & Transportation of Personnel	6.0	7.5	7.7
Materials & Supplies (for Internal Operations)	0.7	1.1	1.1
Equipment	0.4	0.6	0.6
Transportation of Things	153.6	160.3	166.6
Depreciation - Capital	0.0	0.0	0.0
Printing & Reproduction	0.1	0.1	0.1
Advisory & Assistance Services	0.9	3.0	1.7
Rent, Communication, Utilities, & Misc. Charges	17.6	20.0	20.2
Other Purchased Services	211.9	206.0	205.3
Total Expenses	971.0	992.6	1,010.4
Operating Result	(925.8)	(955.2)	71.6
Less Cash Surcharge Reservation	0.0	0.0	(63.7)
Plus Appropriations Affecting NOR/AOR	935.9	944.4	0.0
Other Changes Affecting NOR	0.0	0.0	0.0
Net Operating Result	10.1	(10.8)	7.9
Other Changes Affecting AOR	0.0	0.0	0.0
Accumulated Operating Result	2.9	(7.9)	0.0

Exhibit Fund-14 Revenue and Expenses
February 1998

ACTIVITY GROUP ANALYSIS
DEFENSE COMMISSARY AGENCY/COMMISSARY OPERATIONS
SOURCE OF REVENUE
(Dollars in Millions)

	<u>FY 1997</u>	<u>FY 1998</u>	<u>FY 1999 *</u>
1. New Orders			
a. Orders from DoD Components:			
Army	0.7	0.0	338.4
Navy	0.0	0.0	256.8
Air Force	5.0	0.0	302.1
Marine Corps	0.0	0.0	86.6
Other	13.9	14.7	14.4
b. Orders from other Fund Activity Group			
DDWCF	0.0	0.0	0.0
c. Total DoD	19.6	14.7	998.3
d. Other Orders:			
Other Federal Agencies	1.1	0.6	0.6
Trust Fund	0.0	0.0	0.0
Non Federal Agencies	24.5	22.1	19.4
Foreign Military Sales	0.0	0.0	0.0
Total New Orders	25.6	22.7	20.0
2. Carry-In Orders	0.0	0.0	0.0
3. Total Gross Orders	45.2	37.4	1,018.3
4. Funded Carry-over	0.0	0.0	0.0
5. Total Gross Sales	45.2	37.4	1,018.3

* See Military Services' appropriated fund budget justification material (OP-5) as follows:

OP-5 Page #

Army	BA 43-12
Navy	4A-2, 4A-7
Marines	4A-4
Air Force	AG 42, pp. 3 & 11

Exhibit Fund-11 Source of Revenue
February 1998

Defense Commissary Agency/Commissary Operations
Changes in the Costs of Operation
February 1998
(Dollars in Millions)

	<u>Expenses</u>
1. FY 1997 Actual Costs	971.0
2. FY 1998 PB	962.7
Adjustments	
Unfunded Requirements	50.4
Foreign Currency Rate Change	(4.5)
3. Program Changes:	
Store Closures	(6.7)
Planning/Design Support	(2.2)
VERA/VSIP	5.3
Other	2.6
4. Pricing Changes:	
General Purchases Inflation	6.3
Retirement Fund Offset	1.1
Foreign National Indirect Hire	0.9
5. Productivity Initiatives and Other Efficiencies:	
Savings Initiatives	(13.8)
Reorganization	(5.7)
Re-Application of Standards	(3.8)
6. FY 1998 Current Estimate	992.6
7. Pricing Adjustments	
Annualization of Prior year Pay Raises	4.0
FY 1999 Pay Raises	
Civilian Personnel	16.6
Military Personnel	0.1
General Purchases Inflation	4.0
Transportation	6.3
8. Productivity Initiatives and Other Efficiencies:	
Savings Initiative	(3.4)
Reorganization	(1.2)
9. Program Changes:	
Store Closures	(5.9)
VERA/VSIP, CSR&DF	(2.7)
10. FY 1999 Current Estimate:	1,010.4

Activity Group Capital Investment Summary							
Component: <u>Defense Commissary Agency</u>							
Activity Group: <u>Commissary Operations</u>							
Date: <u>February 1998</u>							
(\$ in Millions)							
Line Number	Item Description	FY 1997 Quantity	FY 1997 Total Costs	FY 1998 Quantity	FY 1998 Total Costs	FY 1999 Quantity	FY 1999 Total Costs
	Equipment		0		0		0
	- Replacement						
	- Productivity						
	- New Mission						
	- Environmental						
	- Compliance						
	ADPE & Telecom		0		0		0
	Software Development		0		0		0
	Minor Construction		0		0		0
	TOTAL		0		0		0

Exhibit Fund - 9a Activity Group Capital Investment Summary

ACTIVITY GROUP CAPITAL INVESTMENT JUSTIFICATION (\$ in Thousands)										A. Budget Submission FY 99 President's Budget		
B. Component/Activity Group/Date DeCA/Commissary Operations/February 1998				C. Line No. & Item Description				D. Activity Identification				
				FY 1997			FY 1998			FY 1999		
Element of Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost	Quantity	Unit Cost	Total Cost
			0		0		0					
Narrative Justification:												

Exhibit Fund-9b Activity Group Capital Purchases Justification

Defense Commissary Agency
 Activity Group: Commissary Operations
 FY 1998
 FY 1999 President's Budget

PROJECTS ON THE FY 1998 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
	Equipment except ADPE and TELECOM					
	Equipment - ADPE and TELECOM					
	Software Development					
	Minor Construction					
	Total FY 1998	0	0	0		

Exhibit Fund-9d Capital Budget Execution
 February 1998

Defense Commissary Agency
 Activity Group: Commissary Operations
 FY 1999
 FY 1999 President's Budget

PROJECTS ON THE FY 1999 PRESIDENT'S BUDGET

(Dollars in Millions)

<u>FY</u>	<u>Approved Project</u>	<u>Reprogs</u>	<u>Approved Proj Cost</u>	<u>Current Proj Cost</u>	<u>Asset/ Deficiency</u>	<u>Explanation</u>
	Equipment except ADPE and TELECOM					
	Equipment - ADPE and TELECOM					
	Software Development					
	Minor Construction					
	Total FY 1999	0	0	0		

Exhibit Fund-9d Capital Budget Execution
 February 1998